

# **How Your Retirement Benefits Are Taxed**

**For Use in Preparing 2005 Returns**

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Use this publication in preparing your 2005 tax return. There are no substantive differences between the 2004 and 2005 versions of this publication.

### CAUTION

The information in this publication reflects interpretations by the Wisconsin Department of Revenue of laws enacted by the Wisconsin legislature as of November 1, 2005. Laws enacted after this date, administrative rules, and court decisions may change the interpretations in this publication.

## I. INTRODUCTION

Wisconsin's income tax treatment of retirement benefits received by a resident of Wisconsin is generally the same as the federal tax treatment. However, there are differences.

This publication discusses the differences between the federal and Wisconsin income tax treatment of retirement benefits. It also covers withholding on retirement benefits and penalties on retirement plans.

This publication does not discuss in detail the federal income tax treatment of retirement benefits. If you need information on the federal tax treatment, the following publications are available from the federal Internal Revenue Service (IRS).

No.	Title
554	Older Americans' Tax Guide
560	Retirement Plans for Small Business (SEP, SIMPLE, and Qualified Plans)
575	Pension and Annuity Income
590	Individual Retirement Arrangements (IRAs)
721	Tax Guide to U.S. Civil Service Retirement Benefits
915	Social Security and Equivalent Railroad Retirement Benefits

You may obtain these publications by calling the IRS at 1-800-829-3676 or from the IRS web site at [www.irs.gov](http://www.irs.gov).

## II. DEFINITIONS

The following definitions apply in this publication.

**“Retirement benefits”** includes pensions, annuities, distributions from qualified employee plans, tax-sheltered annuities, distributions from non-qualified employee plans, and distributions from IRAs, Keoghs, SEPs, SARSEPs, and SIMPLE plans.

**“Qualified employee plan”** is an employer's stock bonus, pension, or profit sharing plan that is for the exclusive benefit of employees or their beneficiaries. This plan must meet federal Internal Revenue Code requirements.

**“Nonqualified employee plan”** is an employer's plan that does not meet federal Internal Revenue Code requirements.

**“Resident”** is an individual who is domiciled in Wisconsin.

**“Nonresident”** is an individual who is not domiciled in Wisconsin.

**“Part-year resident”** is an individual who is domiciled in Wisconsin for part of the taxable year.

**“Domicile”** is your true, fixed, and permanent home where you intend to remain permanently and indefinitely and to which, whenever absent, you intend to return. It is often referred to as “legal residence.” You can be physically present or residing in one locality but maintain a domicile in

another. You can have only one domicile at any time.

### III. WISCONSIN TREATMENT GENERALLY SAME AS FEDERAL

Except as provided in Part IV, the amount of retirement benefits taxable for federal income tax purposes is also taxable for Wisconsin. This is true even though the retirement benefit may be due to services performed in another state.

*Example 1:* You were a resident of Wisconsin for all of 2005. Prior to becoming a Wisconsin resident, you had lived and worked as a teacher in Illinois for 30 years. You are receiving a pension based on your teaching services in Illinois. The amount of your pension that is taxable on your federal income tax return is also taxable on your Wisconsin income tax return.

*Example 2:* You were a resident of Wisconsin for all of 2005. During 2005 you received a distribution of \$60,000 from an IRA account at a Florida bank. The IRA account was established during a period of time when you were a Florida resident. The \$60,000 is taxable on your 2005 federal income tax return. The \$60,000 is also taxable on your Wisconsin income tax return.

### IV. EXCEPTIONS

Although the following items are taxable on your federal return, they may be partially or totally exempt from Wisconsin income tax.

How you report the difference in taxable amounts on your Wisconsin income tax return depends on which form you use to file your return. Report any difference (addition or subtraction) as follows:

- Form 1 — Include as an addition or subtraction, as appropriate, when completing line 4, 9, or 11.

- Form 1A — Include in the subtraction for non-taxable retirement benefits when completing the Retirement Benefit Worksheet in the instructions for Form 1A.
- Form 1NPR — Consider the difference when completing the Wisconsin column of Form 1NPR.

**(Exception:** See Item F on page 7. This difference requires the filing of Wisconsin Schedule I.)

#### A. Railroad Retirement Benefits

**Federal tax treatment** Railroad retirement benefits fall into two categories, that is, tier 1 and tier 2 benefits. Part of the tier 1 benefit is the “Social Security Equivalent Benefit.” This part is treated as a social security benefit. The rest of the tier 1 benefit and the tier 2 benefit are treated as a pension or annuity.

**Wisconsin tax treatment** Railroad retirement benefits from the U.S. Railroad Retirement Board are not taxable by Wisconsin regardless of whether they are taxed federally as a social security benefit or as a pension or annuity. Federal law prohibits states from taxing railroad retirement benefits.

Refer to the instructions for your Wisconsin income tax return for information on claiming a subtraction for railroad retirement benefits which have been included in your federal adjusted gross income.

#### B. Social Security Benefits

**Federal tax treatment** For federal tax purposes, up to 85% of social security benefits may be taxable.

**Wisconsin tax treatment** No more than 50% of social security benefits are taxable.

If your modified federal adjusted gross income plus one-half of your social security benefits (this would be the amount on line 7 of your

federal Social Security Benefits Worksheet in the federal tax form instructions) is more than \$34,000 (\$44,000 if married filing jointly; \$0 if married filing separately and you lived with your spouse at any time in 2005), you may be able to claim a subtraction on your Wisconsin income tax return for a portion of the social security benefits included in your federal adjusted gross income.

Refer to the instructions for your Wisconsin income tax return for information on claiming a subtraction for a portion of the social security benefits which have been included in your federal adjusted gross income.

**Federal tax treatment — Lump-sum payments of social security benefits** Generally, for purposes of computing taxable social security benefits, a lump-sum (or retroactive) payment of social security benefits is included in total benefits for the year in which it is received.

However, a taxpayer who received a lump-sum payment of benefits in 2005 that included retroactive benefits for one or more earlier years can figure whether any part of these earlier year's benefits are taxable based on the earlier year's income. If it will lower the amount of taxable benefits, the taxpayer may elect to treat the earlier year benefits as received in the earlier year. In that case, any part of the earlier year benefits that is taxable is then added to the taxable benefits for 2005 and the total is included in 2005 income. No adjustment is made to the earlier year's return.

When this election is made, the taxpayer must complete separate worksheets for each earlier year for which benefits were received and for 2005 to determine the amount of taxable social security benefits includable in federal adjusted gross income for 2005.

**Wisconsin tax treatment – Lump-sum payments of social security benefits** The following four steps are used to determine any

Wisconsin subtraction available for the difference between the amount of social security benefits taxable for Wisconsin and federal tax purposes:

*Step 1:* Determine the additional amount of social security benefits taxable to Wisconsin for each prior year for which a lump-sum payment was received.

*Step 2:* Determine the amount of social security benefits taxable to Wisconsin for 2005 without considering the lump-sum payment for prior years.

*Step 3:* Add the amounts determined in Step 1 to the amount determined in Step 2.

*Step 4:* Subtract the total social security benefits taxable to Wisconsin (as determined in Step 3) from the total social security benefits taxable for federal tax purposes for 2005. The result is the amount of your federally taxable social security benefits which is not taxable by Wisconsin.

### C. Lump-Sum Distribution Reported on Form 4972

**Federal tax treatment** If you received a lump-sum distribution from an employer's qualified retirement plan, you may be able to elect optional methods of figuring the tax on the distribution. Federal Form 4972, Tax on Lump-Sum Distributions, is used when you choose the 20% capital gain election or the 10-year tax option.

**Wisconsin tax treatment** Income from a lump-sum distribution is taxable by Wisconsin. If you reported a lump-sum distribution on federal Form 4972, you must also include the distribution in Wisconsin income. When computing Wisconsin income, you must add both the capital gain part and the taxable amount under the 10-year tax option from Form 4972 to your federal adjusted gross income.

**Note:** No portion of a lump-sum distribution may be reported as a capital gain on Wisconsin Schedule WD. The distribution is taxable as ordinary income.

Full-year Wisconsin residents must file their Wisconsin income tax returns on Form 1 (long form) if federal Form 4972 was used to compute tax on a lump-sum distribution. Part-year residents report the lump-sum distribution on Form 1NPR.

#### **D. Exempt Retirement Benefits**

**Military and uniformed services retirement benefits** The following retirement benefits are exempt from Wisconsin income tax:

- Payments from the United States military retirement system (including payments from the Retired Servicemen's Family Protection Plan).
- Retirement payments from the United States government that relate to service with the Coast Guard, the commissioned corps of the National Oceanic and Atmospheric Administration, or the commissioned corps of the Public Health Service.

**Other exempt retirement benefits** Payments received from the retirement systems listed in the next column are exempt from Wisconsin income tax if:

1. You were retired from the system before January 1, 1964, or
2. You were a member of the system as of December 31, 1963, retiring at a later date, and payments you receive are from an account that was established before 1964, or
3. You are receiving payments from the system as the beneficiary of an individual who met either condition 1 or 2.

The specific retirement systems are:

#### **Local and state retirement systems:**

- Milwaukee City Employees
- Milwaukee City Police Officers
- Milwaukee Fire Fighters
- Milwaukee Public School Teachers
- Milwaukee County Employees
- Milwaukee Sheriff
- Wisconsin State Teachers

#### **Federal civilian employee retirement systems:**

- United States government civilian employee retirement systems. Examples of such retirement systems include:
  - Civil Service Retirement System
  - Federal Employees' Retirement System

*Example 1:* You began teaching in Wisconsin in 1960. You were a member of the Wisconsin State Teachers Retirement System continuously from 1960 until your retirement in 1995. You are receiving monthly retirement benefits from the Wisconsin Department of Employee Trust Funds based on your membership in the Wisconsin State Teachers Retirement System. Because you were a member of the Wisconsin State Teachers Retirement System as of December 31, 1963, and your retirement benefits are paid from an account established before 1964, the amount of your retirement benefit is exempt from Wisconsin income tax.

*Example 2:* You are receiving social security benefits. Social security benefits do *not* qualify for this exemption for federal retirement system benefits. Social security benefits are not payments from a United States civilian employee retirement system.

*Example 3:* You began employment with the Milwaukee school system in 1951. Upon retirement, you received benefits from the Early

Retirement Supplement and Benefit Improvement Plan. The supplemental benefits, even though they may be dispensed by one of the retirement systems listed above, are not payments from one of the specified retirement funds or systems, but are payments provided by the City of Milwaukee. Thus the supplemental benefits do not qualify for the exemption.

**Account must be established before 1964**

Only payments from accounts established *before* 1964 qualify for the exemption.

Payments from accounts established after 1963 do *not* qualify for the exemption. Payments from an account established after 1963 are taxable even though you may have repurchased previously forfeited pre-1964 service. The exercise of the right to purchase previously forfeited creditable service establishes creditable service to use toward calculating your annuity; it does not reestablish membership in the retirement system.

**Caution:** For taxable years beginning before January 1, 2000, persons who were members of the Wisconsin State Teachers Retirement System before 1964 and withdrew their deposits, but returned to teaching after 1964 and later had pre-1964 creditable service restored as a result of the Wisconsin Supreme Court decision in *Schmidt vs. Department of Employee Trust Funds*, and the Wisconsin Court of Appeals decision in *Benson vs. Gates*, qualified for the exemption. However, as the result of subsequent litigation, the Department of Revenue has changed its position, and effective for taxable years beginning on or after January 1, 2000, the retirement benefits received by such persons *are* subject to Wisconsin income tax.

*Example 1:* You were a member of the Wisconsin State Teachers Retirement System from 1959 through 1963. You left teaching after 1963 and withdrew the allowable contribution from your retirement account, completely clos-

ing the account. You later returned to teaching and a new account was established for you in the retirement system. Any retirement benefits from the new account established after 1963 would *not* qualify for the exemption.

*Example 2:* The facts are the same as in Example 1 except that in order to increase the amount of your retirement benefit, you elected to purchase the previously forfeited creditable service. Your retirement benefits still would *not* qualify for the exemption.

*Example 3:* You served in the U.S. Navy from 1951 to 1955. In 1964 you began working for the U.S. Postal Service. At that time, you became a member of the federal Civil Service Retirement System, and an account was established for you in that retirement system. Upon your retirement, your four years of military service were used in the computation of your civil service retirement benefit. As a result, your retirement computation date, including the military service, is a date in 1960.

Any retirement benefits from your account in the Civil Service Retirement System do *not* qualify for the exemption because the benefits are paid from an account established after December 31, 1963. The military service was counted as creditable service to use toward calculating your annuity; it does not establish membership in the retirement system.

**Benefits must be based on membership** Only benefits based on qualified membership in the local, state and federal retirement systems indicated under “Local and state retirement systems” and “Federal civilian employee retirement systems” on page 4 are exempt. Any portion of your retirement benefit based on membership in other retirement systems is taxable.

The following formula may be used to determine the exempt portion which may be subtracted:

$$\begin{array}{rcl} \text{Years of} & & \\ \text{creditable service} & & \\ \text{in an exempt plan} & \times & \text{Annuity} \\ \text{Total years of} & & \text{included} = \text{Portion of} \\ \text{creditable service} & & \text{in federal} \quad \text{annuity} \\ & & \text{income} \quad \text{that is} \\ & & \text{exempt} \end{array}$$

**Note:** If you received separate Forms 1099-R for the taxable and exempt portions of your annuity, you may use the Form 1099-R information instead of the above formula.

*Example 1:* You were employed as a teacher and were a member of the Wisconsin State Teachers Retirement System from 1960 to 1965. From 1966 until retirement, you were employed by a state agency in a nonteaching capacity and were a member of the Wisconsin Retirement System. You receive an annuity from the Department of Employee Trust Funds based on employment in both retirement systems.

Only the portion of the annuity attributable to the Wisconsin State Teachers Retirement System is exempt from Wisconsin income tax. Use the above formula to determine the exempt portion of your annuity.

*Example 2:* You served in the U.S. Army from 1960-1980. You have been receiving a military retirement benefit since 1980. In 1983 you began working for the U.S. Postal Service. You will retire from the Postal Service and plan to elect to combine your 20 years of military service with your 19 years of service for the Postal Service. As a result of making this election, you will receive a single retirement benefit from the federal Civil Service Retirement System. You will no longer receive a retirement benefit from the military retirement system.

Although your military retirement benefit qualifies for the exemption, the retirement benefit you receive as a result of your Postal

Service employment does not because you were not a member of the Civil Service Retirement System as of December 31, 1963. Only the portion of your annuity which is attributable to your military retirement benefit is exempt from Wisconsin income tax. Use the formula shown in the first column on this page to determine the exempt portion of your annuity.

**Tax-sheltered annuity benefits** Any payments received from the retirement systems listed on page 4 which you receive as a result of having made additional contributions for a tax-sheltered annuity do *not* qualify for the exemption.

*Example:* One component of certain federal employee retirement systems is the Thrift Savings Plan. Federal employees may make contributions to the Thrift Savings Plan that may or may not be matched to some extent by the government. All contributions to the Thrift Savings Plan are made using *before* tax dollars. Distributions from the Thrift Savings Plan are tax-sheltered annuity benefits and are taxable in full by Wisconsin.

## E. Disability Retirement Benefits

If you are retired on permanent and total disability and your disability income is taxable on your federal income tax return, you may be able to exclude up to \$5,200 of your disability income on your Wisconsin income tax return.

You may take the exclusion for 2005 if you meet all of the following tests:

- You were under age 65 on December 31, 2005.
- You did not reach mandatory retirement age before January 1, 2005 (the age when your employer's retirement program would have required you to retire).



- You were permanently and totally disabled when you retired.
- You did not in any year prior to 1984 choose to treat your disability income as a pension instead of taking the exclusion.
- Your federal adjusted gross income is less than \$20,200 (\$25,400 if married and both spouses are eligible.)

Full-year residents who claim the exclusion must file their Wisconsin income tax return on Form 1. Part-year residents claim the exclusion on Form 1NPR. Schedule 2440W, *Disability Income Exclusion*, must be included with your return. If you were married at the end of 2005, you must file a joint return.

See Schedule 2440W for further information on the disability income exclusion.

#### **F. Annuities That Began After July 1, 1986, and Before January 1, 1987**

The Wisconsin and federal tax treatment differs for certain annuities which began after July 1, 1986, and before January 1, 1987.

**Federal tax treatment** If you contributed to the cost of your annuity, you are required to recover your contribution by computing a monthly excludable amount. Amounts in excess of the excludable amount are fully taxable.

**Wisconsin tax treatment** For annuities which began after July 1, 1986, and before January 1, 1987, you were allowed to use the “3-year rule.”

The “3-year rule” provided that if you would recover your contributions within three years after the date you receive your first annuity payment, the amounts you received were non-taxable until your own contributions were recovered. After your contributions were recovered, all amounts you receive are fully taxable.

If you computed the taxable portion of your annuity under the “3-year rule” for Wisconsin for 1986, but a monthly excludable amount was calculated for federal tax purposes, you will always have different taxable amounts of your annuity for Wisconsin and federal tax purposes.

Full-year residents of Wisconsin who are affected by this difference must file their Wisconsin income tax returns on Form 1. They must also complete a Wisconsin Schedule I and attach it to their Wisconsin return each year to adjust for this difference. Part-year residents must also complete Schedule I and attach it to Form 1NPR. Schedule I is available at any Wisconsin Department of Revenue office.

#### **G. Distributions From IRAs, Keoghs, and Deferred Compensation Plans That Invest in U.S. Government Securities**

Interest income from United States government securities is not taxable by Wisconsin. A distribution from an IRA, Keogh, or qualified deferred compensation plan (such as Internal Revenue Code sections 401(k), 403(b), and 457 deferred compensation plans) which is the direct owner of U.S. government securities or invests in a mutual fund which holds U.S. government securities is exempt from Wisconsin income tax to the extent the distribution is attributable to interest from those U.S. government securities.

*Example 1:* You establish an IRA. The amounts contributed to the IRA are invested in securities issued by the U.S. government. When amounts are withdrawn from this IRA, the portion of the amount withdrawn from the IRA which is attributable to interest from U.S. government securities may be excluded from Wisconsin taxable income.

*Example 2:* You establish an IRA at a bank. The amounts contributed to the IRA are invested in bank certificates of deposit. The bank receives interest income from its own investment in U.S. government securities. When amounts are

withdrawn from this IRA, no portion of the amount withdrawn is considered attributable to interest from U.S. government securities. Interest received by the bank does not pass through as exempt U.S. government interest to the owner of the IRA.

**How to determine the U.S. government interest portion of a distribution** The following worksheet can be used to determine the portion of an IRA distribution which is considered U.S. government interest. If you have more than one IRA, they must be considered together, as if they were a single IRA, when completing the worksheet.

The worksheet may also be used to determine what portion of a Keogh plan or qualified deferred compensation plan distribution is U.S. government interest.

1. Amount distributed from all IRAs during the year \_\_\_\_\_
2. Total U.S. government interest received by the IRAs for all years minus the amounts of U.S. government interest withdrawn in prior years \_\_\_\_\_
3. Total value of all IRAs at end of year plus amount on line 1 \_\_\_\_\_
4. Divide line 2 by line 3. Enter decimal. \_\_\_\_\_
5. Multiply line 1 by line 4. This is the amount of the IRA distribution which is considered U.S. government interest. \_\_\_\_\_

## H. Tax-Sheltered Annuities

**Federal tax treatment** Tax-sheltered annuity benefits received by retired teachers are included in taxable income.

**Wisconsin tax treatment** Except as provided below, tax-sheltered annuity benefits received

by retired teachers are included in taxable income.

**Exception** A subtraction is allowed if a school system purchased a tax-sheltered annuity for an employee prior to January 1, 1965, and the employee paid a Wisconsin income tax on the tax-sheltered annuity deposit which was used to pay the 1964 annuity premium. The subtraction is equal to the portion of the tax-sheltered annuity benefit which is included in federal adjusted gross income and upon which the employee previously paid a Wisconsin income tax.

*Example:* You made a deposit of \$200 for the purchase of a tax-sheltered annuity in 1964. The \$200 was included in your 1964 Wisconsin taxable income. You retired in 2005. The first \$200 of tax-sheltered annuity benefits received are not taxable by Wisconsin. All subsequent benefits are taxable.

## I. Nonresidents and Part-Year Residents

**Distributions Received While a Wisconsin Resident** Distributions from retirement plans and deferred compensation plans (both qualified and nonqualified plans) received while a Wisconsin resident are taxable by Wisconsin, regardless of whether the distribution may be attributable to personal services performed outside Wisconsin.

*Example:* You retired from your job in Ohio on September 1, 2005. On October 1, 2005, you became a resident of Wisconsin. In November, you received a lump-sum distribution of \$60,000 from your former Ohio employer's noncontributory retirement plan. The \$60,000 is taxable by Wisconsin.

## Distributions Received While a Nonresident of Wisconsin

**Qualified Plans** – Distributions received by an individual who is not a resident of Wisconsin from a qualified retirement plan or qualified deferred compensation plan are not taxable by

Wisconsin, regardless of whether the distribution may be attributable to personal services performed in Wisconsin.

A “qualified retirement plan” or “qualified deferred compensation plan” includes income from:

- a qualified trust under sec. 401(a) of the Internal Revenue Code (IRC) which forms part of a stock bonus, pension, or profit-sharing plan and which is exempt from taxation under sec. 501(a), IRC.
- a simplified employee pension (SEP) under sec. 408(k), IRC.
- an annuity plan under sec. 403(a), IRC.
- an annuity contract under sec. 403(b), IRC (employees of a public school or tax-exempt organization).
- an IRA under sec. 7701(a)(37), IRC.
- a deferred compensation plan of state and local governments and tax-exempt organizations under sec. 457, IRC.
- a government plan under sec. 414(d), IRC.
- a trust described in sec. 501(c)(18), IRC.

*Example:* You retired from your job in Wisconsin on March 1, 2005, and became a Florida resident on March 15, 2005. On April 1, 2005, you began receiving monthly payments from your former employer’s qualified retirement plan. Amounts received while you are a Florida resident are not taxable by Wisconsin.

*Nonqualified Plans* – Distributions received by a nonresident of Wisconsin from a nonqualified employee plan are taxable by Wisconsin if the payment is attributable to personal services performed in Wisconsin. (See Exception below.)

*Example:* You retired on March 1, 2005, after 30 years of service for ABC Corporation in Wisconsin. On April 1, 2005, you became a Florida resident. In May, 2005 you received a

lump-sum distribution of \$200,000 from ABC Corporation’s nonqualified deferred compensation plan. The \$200,000 payment is taxable by Wisconsin because the entire payment is attributable to personal services performed in Wisconsin. (For purposes of this example, it is assumed that the exception below does not apply.)

**Exception:** Federal law preempts taxation of certain distributions received from a nonqualified employee plan by an individual who is not a resident of Wisconsin. Nonqualified employee plan distributions received by an individual who is not a resident of Wisconsin are exempt from Wisconsin income tax in the following two cases:

- (1) When the distribution is paid out in annuity form over the life expectancy of the individual or for a period of not less than ten years; or
- (2) When the distribution is paid in either an annuity or lump sum from arrangements known commonly as “mirror” plans.

A “mirror” plan is a nonqualified retirement plan maintained by an employer solely for the purpose of providing benefits in excess of certain limits on contributions and benefits contained in the IRC which apply to qualified retirement plans. The benefits provided under a mirror plan are those benefits that would have been provided under the terms of a qualified retirement plan, but for the application of the following limits on contributions and benefits:

- Code section 401(a)(17); limits the amount of annual compensation that may be taken into account under a qualified retirement plan for purposes of computing benefits and contributions.
- Code section 401(k); limits the amount of elective deferrals that may be made by a highly compensated employee to a qualified cash or deferred arrangement.

- Code section 401(m); limits the amounts of employer matching contributions and after-tax employee contributions that may be made to a 401(k) plan on behalf of highly compensated employees.
- Code section 402(g); limits the annual amount of elective deferrals that may be made to a 401(k) plan (or a similar arrangement).
- Code section 403(b); limits the amount of annual contributions that may be made to a tax-sheltered annuity maintained by certain tax-exempt entities.
- Code section 408(k); limits the amount of elective deferrals that may be made by a highly compensated employee to a simplified employee pension (maintained by smaller employers).
- Code section 415; limits the amount of benefits that may be paid from a defined benefit plan and limits the amount of annual contributions that can be made to a defined contribution plan.

## V. WITHHOLDING/ESTIMATED TAX

Wisconsin law does not require that state income tax be withheld from qualified retirement benefits. However, you may request your employer or other payor to withhold Wisconsin income tax from your retirement benefits.

Your request must be in writing. The amount withheld from each payment may not be less than \$5.

**(Note:** If you are receiving benefits from the Wisconsin Retirement System, you may elect withholding by completing Form ET-4310, *Income Tax Withholding Election*. This form is available at any Department of Employee Trust Funds office or it can be downloaded from the Internet at [etf.wi.gov/publications/et4310.pdf](http://etf.wi.gov/publications/et4310.pdf). You may also

call the Department of Employee Trust Funds using their Self-Service Line toll-free at 1-877-383-1888 or (608) 266-2323 (local Madison). If you are receiving a federal retirement system benefit, you may elect withholding by contacting the United States Office of Personnel Management through a toll-free automated system by calling 1-800-409-6528.)

If you do not have Wisconsin income tax withheld, you may be required to make estimated tax payments. Generally, if you would have to pay \$200 or more with your income tax return, you must prepay your tax each year by making estimated tax payments.

Estimated tax payments are made by filing Form 1-ES, *Estimated Tax Voucher*, which is available at any Department of Revenue office.

If you do not make the required estimated tax payments, you may be charged interest. Interest is at the rate of 12% per year for the period of the underpayment.

## VI. PENALTIES

Federal law imposes additional penalty taxes on retirement plans (including IRAs) in certain situations. For example, you may be subject to the 10% tax on early distributions or to the 6% tax on excess contributions.

If you are subject to the federal penalty tax on a retirement plan, you may be subject to a Wisconsin penalty.

The Wisconsin penalty is equal to 33% of the federal penalty tax. The Wisconsin penalty does not apply if the distribution is from a local or state retirement system or federal retirement system and the distribution is exempt from Wisconsin tax (see “Local and state retirement systems” and “Federal civilian employee retirement systems” in Part IV.D. on page 4).

A part-year resident of Wisconsin is subject to the penalty if the action which caused you to owe the

federal penalty tax occurred while you were a Wisconsin resident.

*Example:* You became a Wisconsin resident in July of 2005. In August 2005, you received a distribution of \$10,000 from your former employer's qualified retirement plan. For federal tax purposes you are subject to the 10% tax on early distributions. Because you were a Wisconsin resident when you received the early distribution, you are also subject to the Wisconsin penalty. (**Note:** Receipt of the \$10,000 is the action which caused you to owe the federal penalty tax.)

Full-year Wisconsin residents must file their Wisconsin income tax returns on Form 1 if they are subject to the penalty. Part-year residents report the penalty on Form 1NPR.

## **VII. ADDITIONAL INFORMATION**

If you have questions about the Wisconsin tax treatment of retirement benefits, contact any Wisconsin Department of Revenue office or write or call: Customer Service and Education Bureau, Wisconsin Department of Revenue, Mail Stop 5-77, P.O. Box 8949, Madison, WI 53708-8949 (telephone: (608) 266-2772). You may also submit your questions to the department by e-mail to: [income@dor.state.wi.us](mailto:income@dor.state.wi.us).

If you need Wisconsin forms or publications, call (608) 266-1961 or write to the Forms Request Office, Wisconsin Department of Revenue, Mail Stop 1-151, P.O. Box 8949, Madison, WI 53708-8949. To receive forms or publications by FAX, use your fax telephone to call the department's Fax-A-Form Retrieval System at (608) 261-6229. You may download forms and publications from our Internet web site at [www.dor.state.wi.us](http://www.dor.state.wi.us).